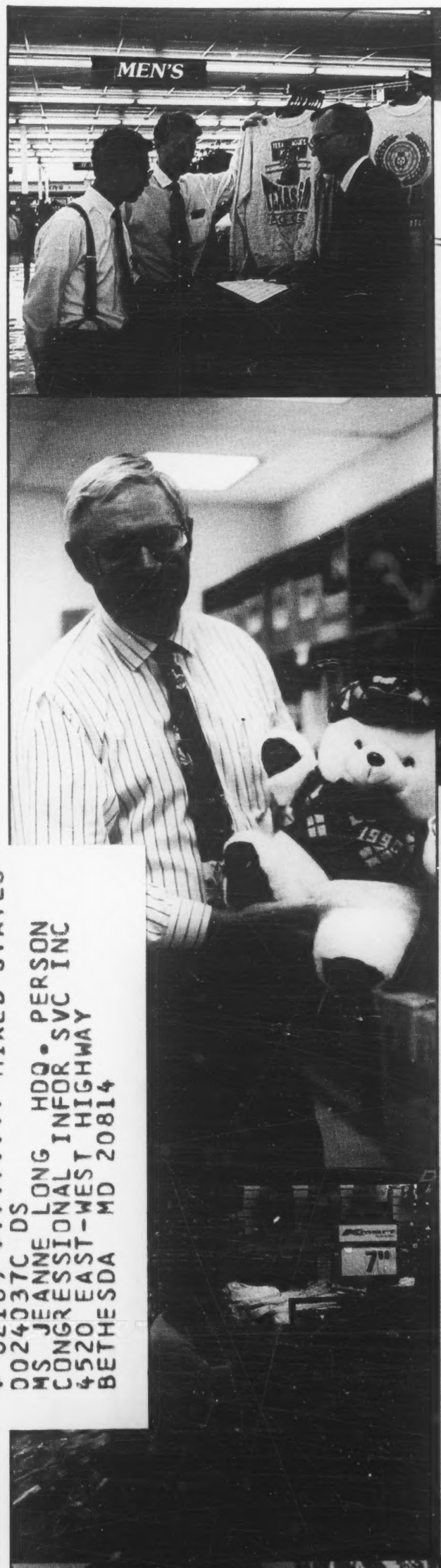
C5150-3

Discount Store News®

THE NEWSPAPER OF DISCOUNT RETAILING

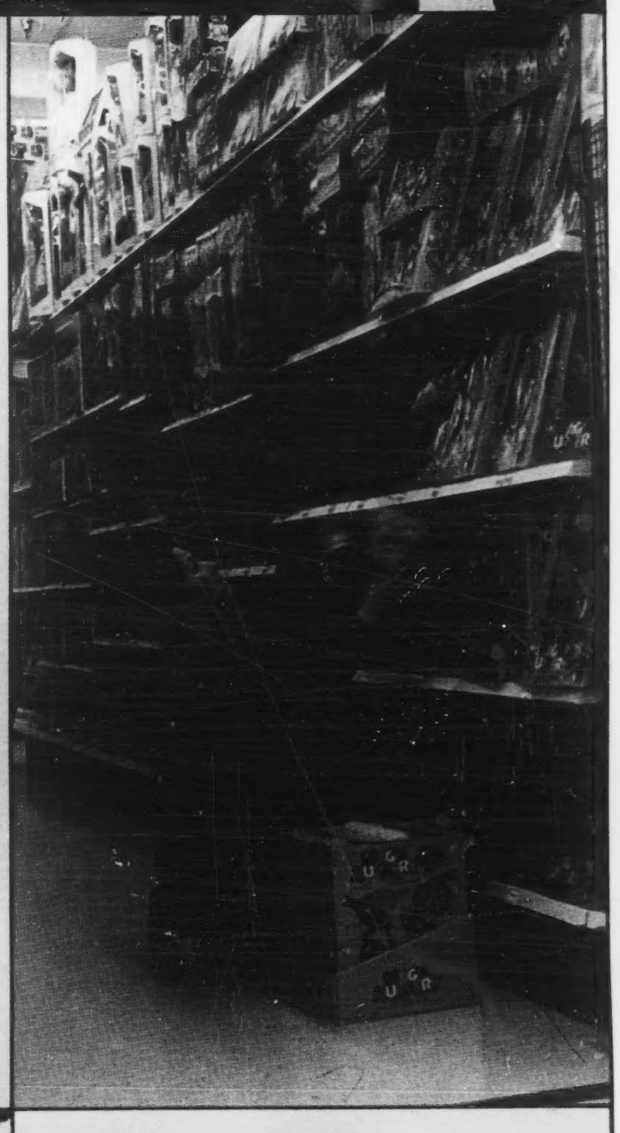
SECOND CLASS

VOL. 29, NO. 23 | Published Biweekly, Every Other Monday, Monthly in December, by Lebhar-Friedman Inc. | $25 per copy | December 17, 1990



* 02189 ********** MIXED STATES
D024037C DS
MS JEANNE LONG HDQ • PERSON
CONGRESSIONAL INFOR SVC INC
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814

Kmart's Fresh New Face



Discount Store News®

THE NEWSPAPER OF DISCOUNT RETAILING

SECOND CLASS

VOL. 29, NO. 23 | Published Biweekly, Every Other Monday, Monthly in December, by Lebhar-Friedman Inc. | $25 December 17, 1990

Kmart celebrities Mario Andretti (l.) and Jaclyn Smith help ceo Joseph Antonini cut ribbon at new Long Island store. (DSN photo)

First L.I. Kmart Makes Debut in West Babylon

By Don Longo

WEST BABYLON, N.Y. — Kmart's new 105,000-square-foot West Babylon store, modeled after Kmart's Store of the '90s prototype, is the first of at least six additional discount stores Kmart plans to open on Long Island over the next 12 to 18 months. The next Long Island Kmart is expected to open in Sayville, N.Y., this spring.

The grand opening featured appearances by Kmart's key spokespersons (Jaclyn Smith for apparel, Martha Stewart for home fashions and the Andretti's for auto supplies), signaling the importance the chain places on what had been the only major U.S. market without a Kmart store.

Kmart chairman Joseph Antonini, who began his career with Kmart on Long Island working in a Kresge store, was optimistic about sales potential on Long Island, even though the local economy is currently in a downturn due to skyrocketing taxes, layoffs by the Island's biggest employer (Grumman Aerospace Corp.) and a depressed real estate market.

"There's no such thing as merchandising for a recession," said Antonini. "People will always buy product at a price."

(Continued on page 132)

Inside This Issue

Sprouse Reitz Sold To SR Partners Inc. page 6

Apparel Wears Out At Hypermarket page 15

Sears Shareholders Call for Input page 7

Nielsen Survey Reveals Key Depts. page 44

Sam's, Pace Square Off For Midwest Dominance

By Arthur Markowitz

CHICAGO — Once a membership warehouse desert, the Midwest has become a hot wholesale club market increasingly being dominated by Sam's Club.

The region's transformation is spurred by Wal-Mart's pending acquisition of The Wholesale Club for its Sam's arm and Pace Membership Warehouse's plans to further expand in the region. Pace will open six stores in Chicago—three next year—and its initial unit in St. Louis while adding another unit each in Cleveland and Detroit.

A&P's acquisition of a majority interest in the troubled 10-store Warehouse Club is another sign of the heightened interest in the region's membership warehouse operation. But unlike Wal-Mart's thrust to build the dominant franchise in the region, A&P's immediate focus is on learning about the food distribution side of the wholesale club business.

Even before the acquisition of the 29 Wholesale Clubs, Wal-Mart had quietly built a major membership warehouse presence in the Midwest with 33 Sam's in seven of the region's eight states. Almost all of these Sam's have been unveiled since 1987—and a growing number are twinned with a Wal-Mart discount store in a synergistic merchandising combination designed to overwhelm other retailers.

Wal-Mart Begins Northeast Thrust

See Story Page 6

In fact, seven of the 11 Sam's opened in the Midwest this year are paired with Wal-Marts, and overall, half of the 24 Sam's unveiled in

(Continued on page 141)

Goldberger Out, Hills Fate Unclear

By Laura Liebeck

CANTON, Mass. — Following a monumental management change last month that paints an uncertain future for Hills Department Stores, the 214-unit discounter remains deeply in debt but committed to previously announced plans designed to revitalize its bottom line.

Plans to open a new 104,000-square-foot prototype store next fall in Derry Township, Pa., are still alive and a new advertising campaign for the Christmas season that emphasizes the discounters great values is currently underway.

The fate of Hills now rests with Jack Brouillard, who on Nov. 26 succeeded Stephen A. Goldberger, the company's chairman and son of Hills' founder, Herbert "Hank" Goldberger.

Goldberger resigned to "pursue other opportunities," according to a Hills statement. Goldberger also resigned from the board, but retained his sizeable equity position.

Goldberger could not be reached for comment.

Brouillard, a man described by a company spokesman as "a true leader," had been the chain's executive vice president and chief financial officer prior to his recent appointment. He is now responsible for the chain's daily management. Thomas Lee, 46, Hills' largest shareholder, has assumed the ceo and board chairman positions. Both were elected by unanimous vote of the board of directors, the spokesman said.

Goldberger's resignation from his one-time family business caught some observers by surprise.

(Continued on page 142)

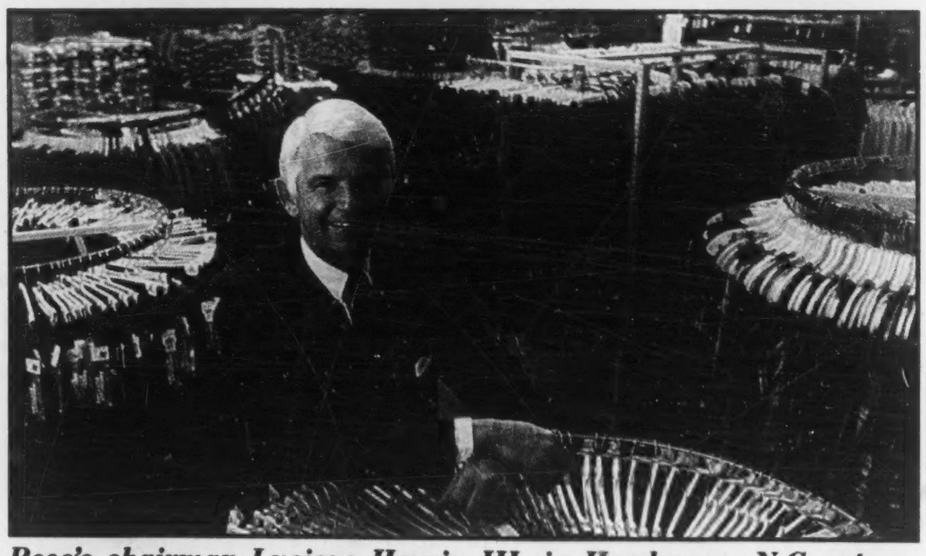
Rose's Loads Guns to Protect Turf

By Jill Lettich

HENDERSON, N.C. — With a newly refurbished headquarters store here and a recently opened state-of-the-art data center, Rose's Stores is fighting hard to maintain its foothold among Southeastern discounters.

With Southern-based Wal-Mart andNorthern-based Target becoming ever increasing threats in the region, Rose's has designed its flagship store and its new data center to serve as ammunition in the battle for market share; the store to upgrade the merchandising, and the data center to improve operating efficiency.

In a recent interview with *DSN*, chairman and chief executive officer of the 75-year-old retailer, Lucious Harvin III, admitted the need for improving merchandise turnover and was cautious about projecting growth for the chain. There is currently one store slated to open at the end of this month, at Tarboro, N.C. But the chain has no plans in place for further store openings or for additional refurbishments of all of Rose's 257 stores.



Rose's chairman Lucious Harvin III, in Henderson, N.C., store: *'We're trying our best to sell merchandise and offer value.'* (DSN photo)

(Continued on page 135)

MARKETWATCH

Stuarts Files Chapter 11

FRANKLIN, Mass. — Stuarts filed a voluntary petition for reorganization under Chapter 11 of the Federal Bankruptcy Code. The 23-store Northeast regional chain plans to continue its retail operations while formulating a plan. Stuarts previously announced on Nov. 12 that Shawmut Bank N.A. declined to make further advances under its credit agreement with Stuarts. The bank's action prompted the company's decision to file for bankruptcy.

Wal-Mart Eyes the Puerto Rican Market

SAN JUAN, P.R. — Wal-Mart has targeted Puerto Rico for its first stores outside of the United States and has been tracking Kmart markets on the island Commenwealth as sites for its initial units. Wal-Mart reportedly is eyeing Guayama and Juan Diaz, where Kmart is building stores, and the Plaza Del Caribe Mall in Vega Alta, which is due to be expanded. Vega Alta is near Vega Baja, where Kmart already has one of its 12 Puerto Rican stores. Kmart, which plans to open seven more units on the island by 1992, is pressing ahead with six warehouse Power Centers, each of which will house a Pace Membership Warehouse and a Builders Square home center.

Three Ex-Ames Go to Montgomery Ward

CHICAGO — Montgomery Ward has acquired three former Ames stores as sites for new units to open next year. Wards, which currently has 343 stores in 39 states, plans to relocate its Lakeland, Fla., unit to the ex-Ames in the Shops of Lakeland Mall, while the Bradenton, Fla., unit will be a new market.

Pace to Open 17 New Stores in 1991

AURORA, Colo. — Pace Membership Warehouse plans to open 17 new stores next year that include its cluster debut in two markets—Dallas (Arlington, Irving and Plano) and Chicago (Addison, Lansing and Tinley Park). Other new markets for the chain include St. Louis (Bridgeton); Albuquerque, N.M.; Rancho California, Calif.; Grand Rapids, Mich.; Jacksonville, Fla.; and Manchester, N.H. Paces in Rochester, N.Y.; Denver; Cleveland (Oakwood); Detroit (Waterford); and Waldorf, Md. will fill in current markets.

Jewelcor Sells Suburban Printing

WILKES-BARRE, Pa. — Jewelcor has sold its Suburban Printing subsidiary to Arden Press of Chicago as part of its Chapter 11 reorganization. But it faces a Jan. 31, 1991, deadline—agreed to by its key creditor, the First National Bank of Boston—to either sell its other businesses or find third-party financing for them; otherwise, its bankruptcy will revert to a Chapter 7 liquidation. Jewelcor chairman Seymour H. Holtzman and a number of other execs have bid for S.A. Peck, the firm's upscale jewelry store in Chicago, while undisclosed parties have made bids for its $60 million Gruen Watch operation and the Jewelcor Merchandising operation, now down to one showroom.

Pamida Ends Year with 177 Stores

OMAHA, Neb. — Since going public two months ago, Pamida has opened four new stores and replaced an existing unit for a year-end store count of 177 in 12 Midwest, North Central and Rocky Mountain States. All are built to its new prototype of 41,000 to 42,000 square feet.

Price Savers Bolsters Phoenix Effort

PHOENIX, Ariz. — Price Savers has opened its third wholesale club in the Greater Phoenix area to strengthen its market position as one of the industry's most competitive chains in mid-sized cities. There are now eight membership clubs in the market; Price Club has the other five.

BASF Buys AGFA-Gavaert's Division

BEDFORD, Mass. — BASF, a leading magnetic products supplier, has purchased AGFA-Gavaert's international magnetic tape division, effective Jan. 1, 1991.

Seventh Office Stop Opens for Business

WARWICK, R.I. — Office Products of America opened its first Office Stop here last month, the seventh unit in the chain. The 30,000-square-foot store will be followed by a store in neighboring Providence at a future date.

Sprouse Reitz Stores Sold

Sprouse Family Members Will Remain as Consultants

PORTLAND, Ore. — Sprouse Reitz Stores, a 271-unit general merchandise retailer based here, has been sold for roughly $22.9 million, equivalent to $16 per share, cash.

The new parent is SR Partners, Inc.—a joint venture among realtors TransAction Financial Corp., acquisition specialists First San Francisco Holdings, Ltd., and individual investors.

The purchase price could be increased to as much as $17 per share ($24.3 million) in the unlikely event that Sprouse-Reitz's downward-spiraling operating results take an upturn by the close of its fiscal year, Jan. 29, 1991. The merger is scheduled to take place sometime after the close of the fiscal year and before May 15, 1991.

Luis F. Solis, managing partner at First San Francisco Holdings Ltd., said that members of the Sprouse family—including president Robert Sprouse—will remain as consultants.

"We are currently assembling new management; a talented, knowledgable team is evolving," Solis said.

New management will not come from either First San Francisco or TransAction Financial, Solis added. Names of the new Sprouse executives were not yet disclosed.

Changes in the number of stores and retail strategy are likely, but not yet solidified, according to Solis. He refuted trade reports that store closings are likely in New Mexico and several other states. "I deny that any decisions of this kind have been made, but confirm that the company must take a look at its assets."

Solis said various retail formats—including

(Continued on page 135B)

CEO Spearheads Sky City Buyout

ASHEVILLE, N.C. — An investment group headed by Harvey Yellen, Sky City Stores' chief executive officer, has purchased the North Carolina-based discount store chain for an undisclosed amount from Interco, Inc.

The new owner, The Sky City Holdings Corp., includes a Hong Kong-based global trading firm called Asia Pacific Industries. Sky City generated sales of $140 million last year—up from $120 million during the previous year—but has been up against intense competition in its Southeast trading area from Wal-Mart, Rose's and other full-line discounters.

The infusion of capital from Asia Pacific Industries and other members of the holding company will allow for five new store openings in 1991—each conforming to the chain's new, 30,000-square-foot prototype size—plus the development of new corporate offices, a warehouse and a distribution center in its current headquarters city, Asheville, N.C.

Sky City is the first retail operation in which Asia Pacific Industries has invested, although it does have ownership in other non-retail U.S. firms.

John B. Owens, director of stores and operations with Sky City, said the 30,000-square-foot prototype was designed to serve small communities. Currently stores range in size from 51,000 square feet to 28,000 square feet. Also, Owens said the chain plans to increase the percentage of merchandise that is the result of opportunistic buys. Sky City opened its first test prototype last March.

(Con't. on p. 135B)

10 Wal-Marts to Open In 5 Northern States

By Arthur Markowitz

BENTONVILLE, Ark. — Wal-Mart, as expected, will start to invade the Northeast in force beginning next year as it opens at least 10 stores in five states.

The discounter will unveil units in Easton, Md.; Washington Township, N.J.; Greece and Henrietta, N.Y.; Hooksett, N.H., (in a former Ames); and Gettysburg, Harrisburg, Reading, Meadville and Bloomsburg, Pa. It already plans to follow up this initial thrust in 1992 with units in Derry, Somersworth, Amherst and

(Continued on page 142)

IN THIS ISSUE

Kmart's Fresh New Face
Executing the Strategies of the '90s

1. Kmart's Fresh New Face 49
Joe Antonini
Joe Thomas

2. Kmart Stores Are Bigger, Easier to Shop, Better at Meeting Customer Needs 63
Richard Miller
Kmart Shoppers
David Van Zandt
Customer Care Network

3. Kmart Creates Dominant Lifestyle Departments To Meet America's Changing Lifestyles 74
Bill Underwood
Glenn B. Smith
Wendy Wark
Martha Stewart

4. Centralized Merchandising Gets Customers the Merchandise They Want When They Want It 93
Thomas Watkins
Jeff Toffer
Jim Mesenbring
Anthony Mauro

5. Kmart Advances With an Advanced POS/Satellite System 103
Dave Carlson
Dennis Wigent

6. Our New Ad Program Tells the Kmart Story In a New Way 107
Bill Parker
Glen Fortinberry

7. Kmart's Different Retail Formats Are Making a Difference 117
Larry Parkin
George Mrkonic
Jack Smith
Michael Feuer
Charles Steinbrueck

FEATURES

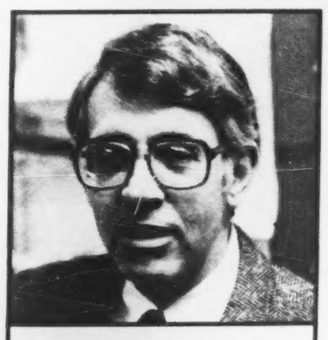
Nielsen Survey Tracks Growth of Departments 44

DEPARTMENTS

Classified 137
Columns:
Buyers & Sellers 10
Publisher's View 10A
Taking Stock 8
Washington Report 10A
Editorial 10
Executive Changes 23
Financewatch 12

TAKING STOCK

Deming's Principals Drive New Kmart



ARTHUR MARKOWITZ
Senior Editor

The success of Kmart's Strategy for the '90s renewal program depends on management techniques that carry a "Made in Japan" label but are really an American product.

The originator of the management ideas, which have captured worldwide attention, is W. Edwards Deming, a name that has little meaning to most retailers.

The application of the ideas in retailing can be seen in Wal-Mart's management techniques and in the evolving new corporate culture at Kmart.

Deming's ideas, 16 management principals, were used during World War II to improve the quality of the nation's defense industry. Japan then picked up the ideas from the war's winner, while victorious American industry ignored them.

The essence of Deming's thinking, in today's computer terminology, is that front-loading is the key to quality and efficiency. It's better to cooperate and work together right from the start of any initiative than to have to go back and fix mistakes or solve problems.

While all of Deming's principals don't directly apply to retailing, we can look at some of Kmart's renewal efforts to appreciate those that do.

Deming's thinking: Management has to lead, instead of just giving orders, and it has to inform and educate employees, make them smarter, so that everyone is a part of the company and can contribute to its success.

Kmart's implementation of these principals includes chairman Joseph Antonini's interactive Dialog program on the Kmart Satellite Network, in which he communicates with employees and answers their live, phone-in questions. The Management Update program and special merchandising broadcasts, meanwhile, allow top merchandising and operational executives to discuss Kmart's strategies and even mundane but vital issues like how to set up and merchandise seasonal goods.

The bottom line: Kmart employees have a greater affinity with the company; they understand the "whys" of the retailer's strategy and feed back ideas to a listening management.

Deming's thinking: Create partnership with suppliers and help them improve their products so you get better goods and lower prices. Playing off suppliers against each other for lower prices only leads to poorer quality goods that drive away customers.

Kmart's commitment to QuickResponse (QR) embodies this idea. QR intrinsically demands a partnership between the retailer and its vendors. The exchange of information enables Kmart to maintain a better in-stock position to satisfy its shoppers. The suppliers gain through better allocation of their manufacturing resources to lower their costs and improve their products.

Deming's thinking: Continually improve your operation, rather than trying to take great leaps forward.

At Kmart, the everyday unfolding of its strategy is a great leap forward for the retailer.

Retailers Painting Bleak Picture About Nation's Economic Forecast

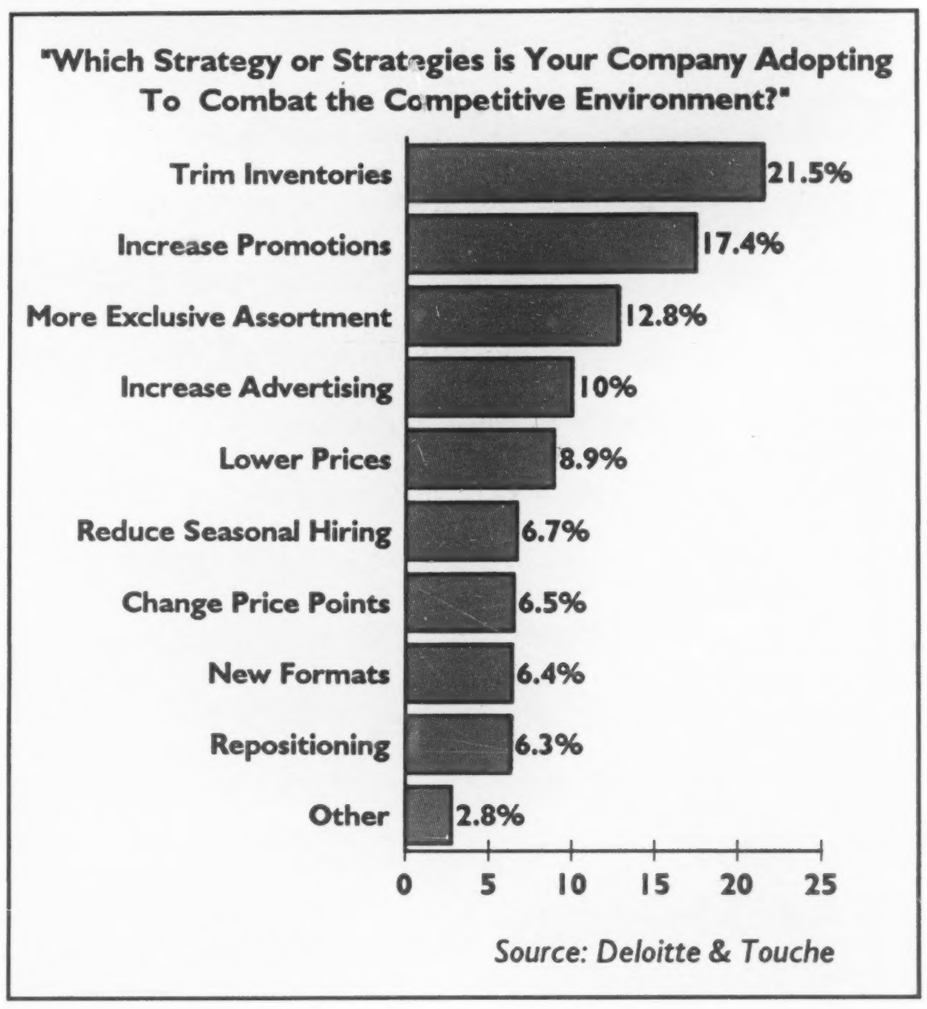
Nationwide DSN Report

Despite some economists' reluctance to use the word, retailers believe the country is in the throes of a recession and are convinced that things will get worse during the coming year.

Consumer spending was cited as the biggest concern, not just among retailers, but among all levels of the soft goods industry in a survey by Kurt Salmon Associates (KSA). In response, trimming inventories was cited most often by retailers as a necessary precaution given current economic conditions in another study conducted by Deloitte & Touche.

According to the survey by the retail services unit of Deloitte & Touche, the accounting and consulting firm, retailers are anticipating pressures on both sales and profits, especially as "they're up against increasingly demanding con-

(Continued on page 142)


"Which Strategy or Strategies is Your Company Adopting To Combat the Competitive Environment?"
Trim Inventories 21.5%
Increase Promotions 17.4%
More Exclusive Assortment 12.8%
Increase Advertising 10%
Lower Prices 8.9%
Reduce Seasonal Hiring 6.7%
Change Price Points 6.5%
New Formats 6.4%
Repositioning 6.3%
Other 2.8%
0 5 10 15 20 25
Source: Deloitte & Touche

For Easier Detection of Shoplifters:

Clover Tests Color Security TVs

PHILADELPHIA — To make it easier to collar shoplifters, Clover will test a color, as opposed to a conventional black and white, closed circuit TV (CCTV) system in a new store.

Clover expects that the color system will make it easier for floor security guards to locate a shoplifter that the CCTV cameras detect because observers will be able to describe them by the color of clothes they are wearing, said Tom Entenmann, director of asset protection.

"Sometimes it's hard to describe a suspect and you lose him," Entenmann said. But with a color system, the monitor room observer can radio to a guard on the floor to "look for a man wearing a blue shirt and tan pants," he said.

It will cost about $7,000 extra, or less than 10%, to equip the new Ralph's Corner store in Lansdale, Pa., set to open March 12. "If you pick out the wrong person, it could cost you a whole lot more than $7,000," Entenmann said.

Sensormatic, Deerfield Beach, Fla., is the vendor. When it approached Clover two years ago the cost differential was too high, about $20,000 more, Entenmann said.

As with any new technology, the price has come down. Clover will test the system "for a few months to see if it's worth the extra cost."

Entenmann said he has seen no studies that indicate whether a color system results in a better apprehension rate. "I can't predict that it will make a dramatic improvement," he said.

The Springfield, Pa., unit of Strawbridge & Clothier, Clover's department store parent, already has color, Entenmann said.

Each of 14 rotating surveillance domes will have a color TV camera and black & white monitor, Entenmann said. But when the observer spots suspicious activity, he can shift the picture to one of two color main monitors, he said.

Clover apparently is the first discount store to order a color CCTV system, said Lou Chiarra, director of marketing for Sensormatic, although department stores, including Strawbridge & Clothier, already have them.

Surveillance domes with color cameras cost about $300 more than black and white units, Chiarra said, while color monitors cost about $225 more than black and white.

Another advantage of color is that it provides more contrast than black and white, he said. In black and white, "things blend in and details can be lost," he said.

Chains also can order color CCTV with Sensormatic's system to observe checkout registers for collusion between customers and clerks, he said. Sensormatic calls its version POSEM, for Point of Sale Exception Monitor.

With color, it's easier to identify the products and the clerks and customers involved, Chiarra said. The color cameras can make out such personal features as complexion and hair and eye color, he said.

We Know Even The Best Vacuums Won't Move Without A Plug.

Here at Royal, we're committed to energizing your sales by keeping our advertising current. We've bought a record amount of air time for TV spots featuring each Dirt Devil® model, including our new upright. We're maintaining our presence in radio through our continued association with the ever popular Paul Harvey. And our print ads will be running in leading consumer magazines. So stock up on Dirt Devil vacuums. They're sure to connect with your customers.

Dirt Devil® by Royal

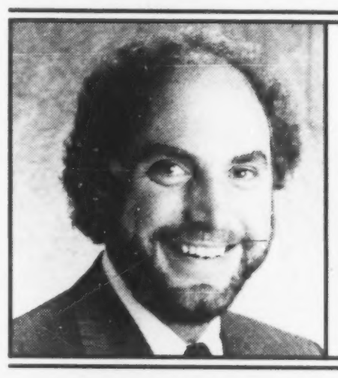
©1990 Royal Appliance Mfg. Co. All rights reserved.

EDITORIAL

Kmart Shows Willingness to Change

Four years ago, *DSN* devoted its special year-end issue to Kmart. It was entitled "Kmart's Special Synergy: Solving the Growth Puzzle." In preparation for the extensive series of interviews conducted for this issue, I recently reread that December 1986 issue and I thought it would be both fun and informative to compare Kmart's past with its strategies for the '90s in several key areas including: corporate philosophy, executive management team, corporate culture, growth and expansion, technology, customer service, and merchandising and marketing.

• **Corporate strategy.** In 1986, diversification was the buzzword. It was, as you may recall, former chairman Bernard Fauber's "vision" during the '80s that steered Kmart into specialty retailing. In fact, Fauber once challenged then-president and heir-apparent Joe Antonini to try at least one new experiment every six months. In 1990, specialty retailing is still important, but the focus is on the core discount stores and the buzzword is "renewal."



TONY LISANTI
Editor

• **Management team.** Five of the eight officers and executive vps as of January 1987 are no longer with Kmart. And Larry Parkin, exec vp of warehouse and grocery operations, will be retiring next month. Only Antonini and Joe Thomas remain from that executive team. However, Antonini has assembled a talented cadre of new execs—a blend of insiders and outsiders—that he feels will aggressively execute the strategies of the '90s.

• **Corporate culture.** In the early and mid-'80s, Kmart, like Sears, was often described as a very conservative company mired in a web of bureaucracy. In 1990, there's a new esprit de corps that is both refreshing and required in order to execute Antonini's strategies for the '90s. Since Fauber's resignation, Antonini has emerged as a bona fide chairman and cheerleader, rallying and challenging not only his top executives but associates on all levels. Communicating Kmart's message is vital and Antonini has been in the forefront with extensive field trips, his Dialog show on KTV and his TV image spots for new openings. And, after interviewing over 20 executives and talking to other Kmart employees, it's obvious that a cultural transformation is taking place.

• **Growth and expansion.** In 1986, despite the focus on specialty concepts, Kmart was committed to opening anywhere from 20 to 35 new discount stores per year. While 207 stores were refurbished that year, the majority of the 2,100-store chain continued to age. Four years later, 85% of its stores were eight years and older, according to *DSN* estimates. As a result, Kmart embarked on a $2.3 billion modernization program scheduled for completion by 1995.

• **Technology.** In 1986, Kmart was not a leader in technology, but its goal was to install a POS/satellite system by 1991. Well, the discounter achieved its goal over a year ahead of schedule, and is now considered by many to be the most technologically advanced retailer in the industry. As you read this issue, you will understand the significance of this accomplishment and its impact on every aspect of operations.

• **Customer service.** In 1986, little was mentioned about customer service, although Fauber said he was "hung up on service and adamant about maintenance." In 1990, it is a major part of the new culture. The staff was expanded, a toll-free service number was added, and several new policies were developed as part of the Kmart Customer Care Network.

• **Merchandising.** Four years ago, Fauber's vision of what a Kmart store would be like in the 1990s included "more shops within a store, more name brands, and more sections such as Kitchen Corner . . ." Futhermore, Antonini had said, " . . . it's not necessarily product uniqueness that generates sales. It is every bit as much a question of presentation." Four years later, the result is just that—dominant lifestyle departments and a new prototype that emphasizes presentation and service.

• **Marketing.** In 1986, the focus was on a lifestyle, fashion image with more magazine and television ads. In 1990, that same lifestyle theme continues with, says Antonini, "less clutter and better presentation."

It's obvious that Kmart has changed, but so has the competition. The future looks bright, yet some uncertainty remains. Antonini has quickly made a lot of people believers in the Kmart of the '90s. However, Kmart's growth and profitability are dependent not only on its ability to execute its current programs quickly and efficiently but on its ability to continue to change and not become, once again, complacent.

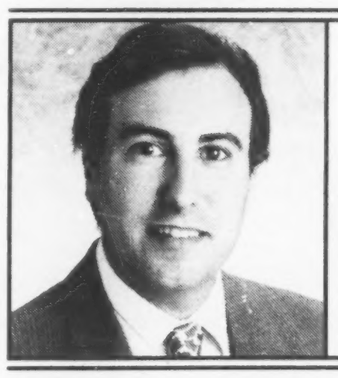
BUYERS & SELLERS

Well Joe, You Win; I'm a Kmart Shopper

Dear Joe:

You won the bet. I shopped Kmart. I don't make that statement like a closet Kmart shopper finally admitting my addiction to the discount store concept. I'm actually quite an avid discount store shopper. As a business reporter who travels frequently, I've dropped my share of hard-earned cash at discounters across the country.

Shopping at a discount store is not a novel experience for me. But, since I live on Long Island, my hometown choices have been pretty slim pickings. Until Caldor opened one of its new prototype stores near me, I could spend a full day going to different specialty discounters—Toys "R" Us for toys, The Wiz for electronics, Rockbottom for H&BA, Burlington Coat or Marshalls for apparel. Given the oppressive Long Island traffic situation, that was never a pleasant prospect.



DON LONGO
Exec Editor

Then, five months ago, at the press conference in Mineola when you announced Kmart's plans to invade Long Island, you assured me: "Everybody shops Kmart. Don, you'll shop Kmart, too."

Well, that evening after the press conference, I thought about your challenge. You would make me a Kmart shopper.

I thought about some of the trips I've taken; what I bought, and where: a knit Elliott Bay (private label) sports shirt at Target Greatland in Minneapolis; a Lee denim jacket at the VF Factory Outlet at Sawgrass Mills in Florida; Gitano tank tops and shorts at Wal-Mart in Charlotte, N.C.; bath towels at the old Gold Circle in West Palm Beach, Fla.; swim trunks at Kmart's American Fare hypermarket in Atlanta. In every case, I felt I was purchasing a quality product at a good price. For some reason, Kmart wasn't on my shopping list.

Until now. Going to the grand opening of your new Long Island store last month whetted my appetite. I had to pick up some Christmas presents anyway, so the following weekend I drove the 30 miles from my home to the newest Kmart and ended up walking out the door with $150 worth of bargains.

Now, I don't promise to make that 30-mile drive very often. But, I must tell you I was impressed with the new Kmart: The merchandise quality, assortment and store ambiance.

More impressive is the new spirit at Kmart. The message appears to have taken hold, and while the next year will be a tough one, I'm confident the seeds of the Kmart renewal effort will begin to bear fruit in 1992.

Happy holidays to you, your family and all the Kmart family. This was one bet I didn't mind losing.

P.S.—Earlier this year, I poked fun at the gloomy Wall Street analysts who were dumping on Kmart, and made several outlandish suggestions that you could take to satisfy them. It was the most widely-read column I wrote all year.

Unfortunately, some people took my suggestions too seriously. I'm glad you didn't replace apparel spokesperson Jaclyn Smith with Roseanne Barr. Her hit TV series notwithstanding, Barr probably ruined any shot she ever had of endorsing anyone's brand name with her raucous, crotch-grabbing rendition of the national anthem. Down-to-earth, family-oriented and admired, Jaclyn Smith has been very effective in helping to upgrade and differentiate Kmart's apparel offerings.

I can't resist closing this open letter with one final suggestion. I think you should seriously consider adding Bart Simpson to the Kmart family. As a spokeskid for children's wear and toys, I can imagine Bart saying: "I love Kmart, Man. Gotta problem with that?"

Discount Store News®

is published by
LEBHAR-FRIEDMAN INC.
425 Park Ave., New York, NY 10022
212 371-9400
Subscription Services:
(212) 697-2165 or (212) 697-2166
Cable Address: LEBHAFRIED
Panafax: 212 838-9487

Publisher JOHN FAILLA
Editor TONY LISANTI
Executive Editor Donald Longo
Special Projects Editor Pete Hisey
Senior Editor Arthur Markowitz
Senior Editor Laura Liebeck
Associate Editor Richard C. Halverson
Associate Editor Mary Ellen Kelly
Associate Editor/Apparel Jill Lattich
Senior Desk Editor Dawn Wilensky
Desk Editor Marie A. Peluso
Editorial Assistant Danita Minnis
Art Director Milt Berwin
Graphic Artist Karen Kikta
District Manager Kevin Kennedy
New York Area Manager Harry Taylor
Production Manager Mary Lewis
Business Manager Roch Minieri
Classified Ad Manager Carole Harnoff
Classified Prod. Manager Lawrence Brush
Director of Manufacturing Stan Kaufman
Group Circulation Director Ken Turtoro
VP/Group Publisher Fred J. Filer

DSN Board of Advisors
Joe Ettore Pres., Stuarts
Stephen Goldberger Chmn., Pres., Hills
Peter Hayes Pres., ceo, Child World
Richard Hersh Pres., IMRA
Joseph Nusim Pres., ceo, Channel
Julian Seeherman Pres., Venture Stores
Stephen Westerfield Pres., ceo, WORKplace
Warren W. White GM, Clover
Ray Zimmerman Chmn., Service Merchandise

LEBHAR-FRIEDMAN INC.
New York 425 Park Ave., New York, N.Y. 10022
212-371-9400. Fax 212-838-9487.
President J. ROGER FRIEDMAN
Sr. VP/Group Pub. JAMES DEGRAFFENREID
VP/Administration HARRY A. ESTES
VP/Finance JAMES GRANATO
VP/Circulation Director MARTHA PATTLEY
VPs/FRED FILER, JAY FORBES, JOHN RAPUZZI
Director of Human Resources JOHN MURRO
Director of Corporate Development JOHN O'BRIEN

Founder (1900-1981) ARNOLD D. FRIEDMAN

Publisher of Discount Store News, National Home Center News, Drug Store News, Accounting Today, Nation's Restaurant News, Chain Store Age Executive (with Shopping Center Age), *Apparel merchandising*, Food Merchandising, Home Market Trends, National Industry Reports, Supermarket HQ Quarterly. Affiliates: Business Guides Inc., Lebhar-Friedman Books; Restaurant Personnel Management, Inside Retailing (Newsletters); Chain Store Age News, Japan; Largo Music Inc.

REGIONAL OFFICES
Boston 1 Gateway Center, Newton, MA 02158
617-527-6394
Regional Manager James Malver
Office Manager Angela Ftaran
Cleveland Summit One Bldg., 4700 Rockside Rd., Independence, OH 44131
216-642-3420
Area Manager Dave Tuttle
Office Manager Deborah Bambao
Chicago 444 N. Michigan Ave., Chicago, IL 60611
312-644-8688
District Manager Bruce Smith
Area Manager Cheryl Kilberg
Office Manager Beverly Wendtland
Los Angeles 606 N. Larchmont Blvd.,
Los Angeles, CA 90004
213-464-8321
Area Manager Jeffrey Larsaan
Office Manager Maureen Jackson
San Francisco 400 Montgomery St.,
San Francisco, CA 94104
415-362-2575
Office Manager Pamela Spevack
Washington 117-35 Striley Drive,
Ashton, MD 20861
301-774-3895
Manager, Correspondent Kenneth Rankin
Correspondent Deane Evans
Japan Diamond-Friedman Ltd. Chain Store Age News Japan 1-4-2 Kasumigaseki, Chiyoda-ku Tokyo, Japan 504-6750

The Audit Bureau · MPA · ABP

Subscriptions
Call (212) 697-2165 or (212) 697-2166
Having a problem with your subscription? Send full details, including the mailing label from the last copy you received and your telephone number to Circulation Fulfillment Director, *Discount Store News*, Grand Central Station, P.O. Box 3120, New York, N.Y. 10164-0659.

Permissions
Materials in this publication may not be reproduced in any form without written permission. Direct permission requests to John Failla, publisher, *Discount Store News*, 425 Park Ave., New York, NY 10022.

We welcome our readers' views: Letters to the editor should be addressed to: Editor, *Discount Store News*, 425 Park Ave., New York, NY 10022 or Fax (212) 838-9487.

Nielsen Survey Tracks Growth of 3 Key Depts.

By Jill Lettich

Discounters fine-tuned their merchandising strategies in 1989, which resulted in changes in the amount of space they allocated for H&BA, pharmacy and grocery departments.

In the Nielsen 1990 Review of Mass Merchandiser Trends, H&BA showed the largest growth, while the pharmacy and grocery departments both grew at a slower pace.

This second of a two-part report reviewing the findings of the Nielsen Marketing Research study focused on the changing pharmacy and grocery areas within discounters, and the role of service departments.

The study also analyzed the methods of advertising and in-store display merchandising used at mass merchants.

Part one of the study, reporting overall retail unit growth and the increase in the H&BA market specifically, was featured in the Nov. 26 issue of *DSN*.

Pharmacy departments at mass merchants continued a long-term growth trend in 1989 and increased by 2%. Of the 6,681 discounters on which Neilsen based its numbers, 2,688 featured prescription departments, the report concluded. In 1988 that number was 2,641.

The pharmacy department has continued to improve its numbers for the last five years. Over that time frame, the number of departments has increased by a healthy 6.7%. The biggest increase came in 1987, when discounters carrying prescription departments went from 2,458 to 2,688—an increase of 14%.

The Pacific and Central regions of the United States, which reported the most unit growth overall, also ranked high in terms of the growth of their pharmacy departments.

***Nielsen research** shows that H&BA registered the largest growth, while the pharmacy and grocery departments grew more slowly.* (DSN photo)

The results were consistent with the same two regions' performance in growth of H&BA departments as well.

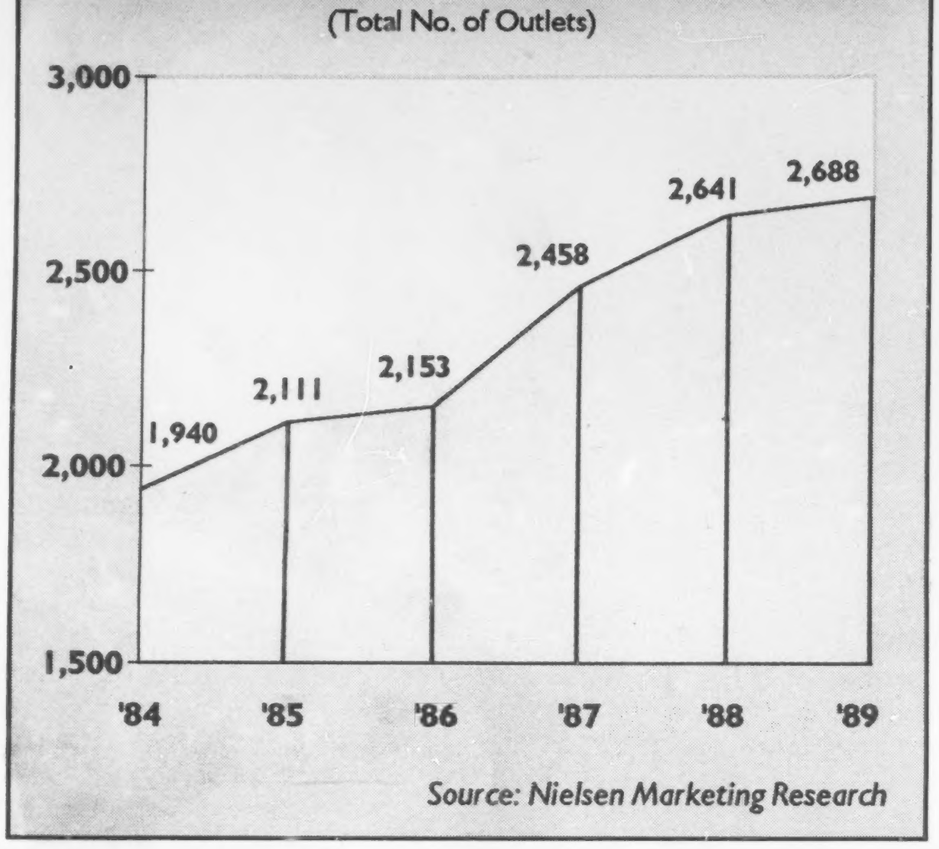
Both the Pacific and Central regions recorded increases in prescription departments of 5%. There was no change in the number of pharmacy departments for the South.

In the East, the number of units carrying prescription departments declined by 9%. It went from 133 units to only 121 mass merchant units featuring pharmacy departments.

The South has by far the largest concentration of mass merchant pharmacy departments. Of the total number of pharmacy departments, a full

(Continued on page 45)

Mass Merchant Outlets With Prescription Counters



Source: Nielsen Marketing Research

GEMINI Consumer Electronic Accessories
AUDIO·VIDEO·TELEPHONE
GEMINI Consumer Electronic Accessories
AUDIO·VIDEO·TELEPHONE
GEMINI Consu
AUDI

Shopper Conveniences Offered By Mass Merchants
(Percentage of Stores Offering)

Service	Total U.S.	Total Stores Less Than 60,000 sq.ft.	Total Stores More Than 60,000 sq.ft.
Sunday Shopping Hours	97%	97%	97%
Open 24 Hours/7 Days	2	*	4
Sells Lotto Tickets	10	8	12
Uses Paper Bags	58	59	56
Uses Plastic Bags	76	80	71
Individual Item Price Labeling	85	93	77
Price Comparison Labeling	16	9	25
Credit Card Accepted	95	97	93
Debit Card	3	1	6
Automatic Teller Machine/In-Store	5	5	6
Home Delivery	2	2	2
Home Delivery Charge	2	2	2
Location in Shopping Center	71	76	65
Customer Service Department	87	90	85
Service Banking	2	2	3
U.S. Post Office	3	2	4
UPS/Other Private Mail Carrier	1	1	1
Optical Department	4	2	7
Tax Consultation	1	*	2
Sells Fast Food	23	24	23
Offers Sit-Down Eating	49	36	63
Magazine Center	14	12	16
Film Developing Department	78	76	80
Pre-Recorded Tape Rentals	21	16	27
Stock Generic Items	14	NA	13
Stock in Single Location	3	NA	4

*—Less than 1%.
NA—Not available

Source: Nielsen Marketing Research

Nielsen Research Cites Regional Differences

(Continued from page 44)

52.4% are in this region.

Although there are 1,223 pharmacy departments located in Southern discounters, the region did show a slight decline from 1988, when 1,229 Southern discount stores had prescription counters.

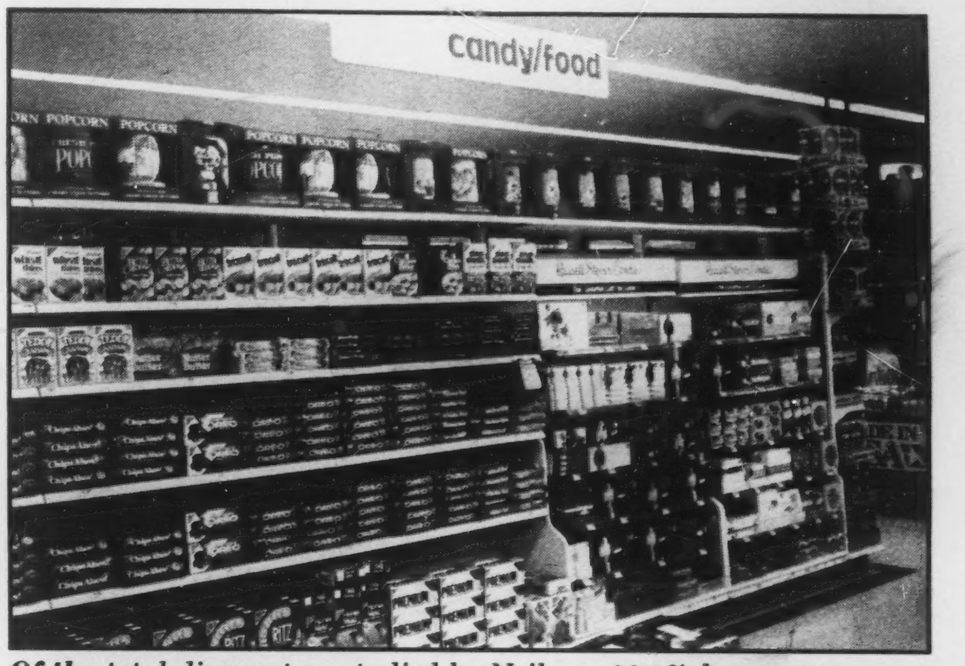
The Central region was second in number of pharmacy counters, accounting for 45.1% of departments.

Despite being second in rank, the Central region has been the most consistent in terms of growth of the pharmacy area. An analysis of the department in the last five years showed an increase from 880 pharmacy departments in 1984 to 1,114 departments in 1989.

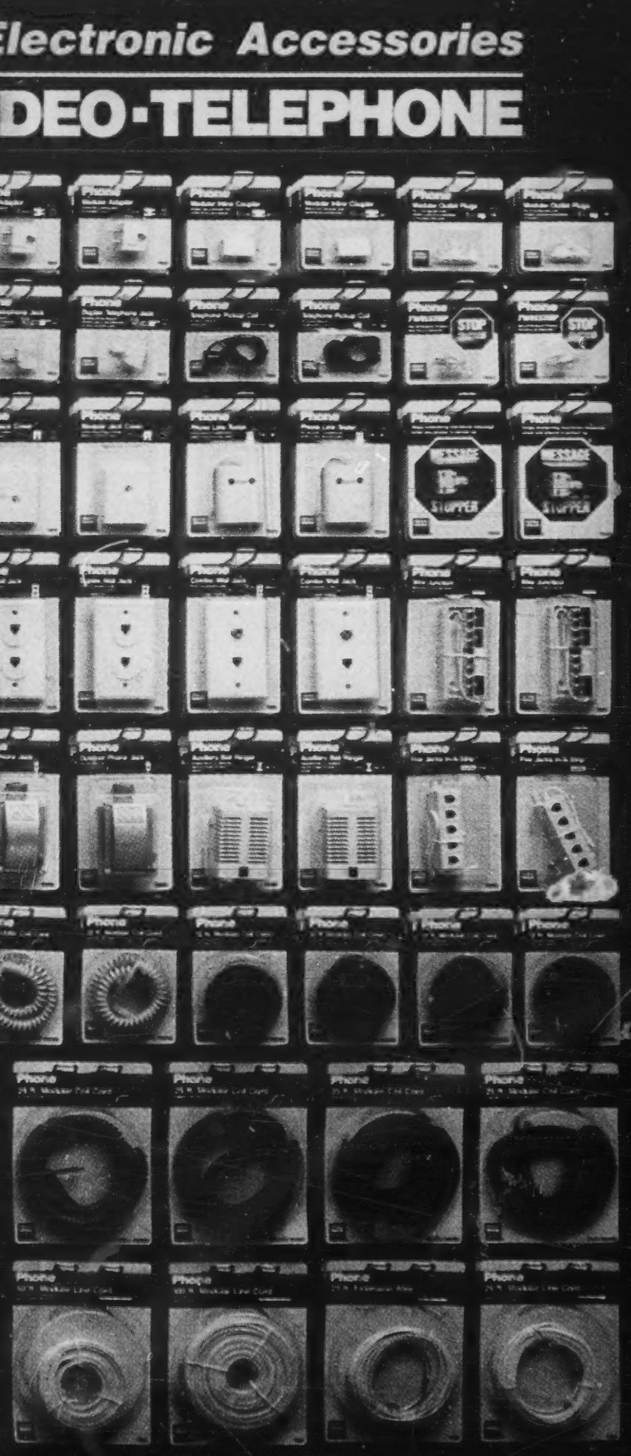
The Pacific region accounted for 38.6% of the pharmacy units in the mass market. The East accounted for only 9% of the total.

For grocery departments,

(Continued on page 46)



***Of the** total discounters studied by Neilsen, 83.4% have grocery sections in general merchandise areas.* (DSN photo)



LEADER OF THE PACK!

GEMINI

® 1990 Gemini Industries, Inc. 215 Entin Road Clifton NJ 07014 201-471-9050 800-526-7452

Study Shows New Emphasis On Special Services

(Continued from page 45)

1989 also marked a year of increases. That segment had been showing steady growth since 1985, but in 1988, the number of mass merchant outlets with grocery store operations remained the same and in 1989 it increased by only 2%.

While overall growth and growth in the pharmacy and grocery areas all registered at 2%, the increases at each level mean very different things in terms of overall trends.

The 2% growth in pharmacy departments showed continued growth. But in the grocery area, it meant a slowdown after consistent increases in unit numbers since 1985.

Nielsen attributed the change in status of the grocery area to hypermarkets and warehouse clubs, which are now luring more food shoppers.

In addition to the sheer numbers, the way mass merchants handle the grocery area has also changed.

Not surprisingly, the largest-growing segment of mass merchants was one with no special grocery section. This segment grew by 25%, with fewer discounters devoting a specific area to groceries.

Discounters with grocery sections in general merchandise areas decreased by 2%. Discounters with complete grocery store operations increased by only one unit number. In 1988 there were 175 discount units with full grocery operations. In 1989 there were 176.

While the grocery department may not be growing by leaps and bounds, food continues to be an area of importance for mass merchants. Of the total discounters studied by Neilsen, 83.4% have grocery sections in general merchandise areas. This is a slight decrease from 1988, when 86% of all discount retailers featured some groceries.

Neilsen's study of general merchandise linear measurements showed that toys and games took up the most general merchandise space in the average store. Soft goods, greeting cards, lawn/garden products and plants also occupied sizable floor space.

Regional variations did exist. Central stores allotted more general merchandise space for sewing notions, glass and tableware, and books.

Pacific stores allocated about 639 linear feet for stationery and school supplies, while the Eastern stores only allocated 288 linear feet for the same products.

In addition, the Southern stores devoted 1,181 linear feet to lawn/garden products and plants. This was nearly four times the space allotted for such items at the average Eastern store.

Whatever the product, Neilsen found that the average mass merchandiser store had about 141 in-store displays. General merchandise accounted for most of the display space, with non-food displays second and H&BA displays third.

Overall, Southern stores used the most displays (166 per store), while Eastern stores used the least (113).

Nationwide, 95% of all mass merchandise outlets featured end-aisle displays. In the Eastern and Pacific regions, the practice was universal. H&BA and general merchandise appeared most often in end-aisle displays, according to Neilsen.

As the importance of various departments shifted in regions and individual stores, one aspect of the mass merchant operations has been given new emphasis—special store services.

The Nielsen report showed that the Pacific region was ahead of the pack in terms of offering service convenience. More than 34% of Pacific region units featured automatic teller machines in-store. This far outpaced any other region in offering this type of service. The same percentage also offered service banking to their customers.

All Pacific region stores were open on Sundays. Though a common practice, it was not universal in other regions. Pacific stores also led in selling lottery tickets, providing optical services, home delivery, video rentals and film developing.

Despite spearheading these service efforts, the Pacific region recorded the lowest percentage of customer service departments. Only 72% of Pacific stores had customer service departments.

By contrast, 95% of all Central stores featured that department. In the East, 89% of stores had customer service departments; in the South, 82% did.

When it comes to tooting their own horns, mass merchants in the Pacific region seemed to be the most technologically advanced.

The use of radio and television was most common in the Pacific region, where 92% of mass merchandise outlets run radio ads and 90% run television ads. In-store video advertising has become widespread in the Pacific region as well, but is just beginning to take hold elsewhere.

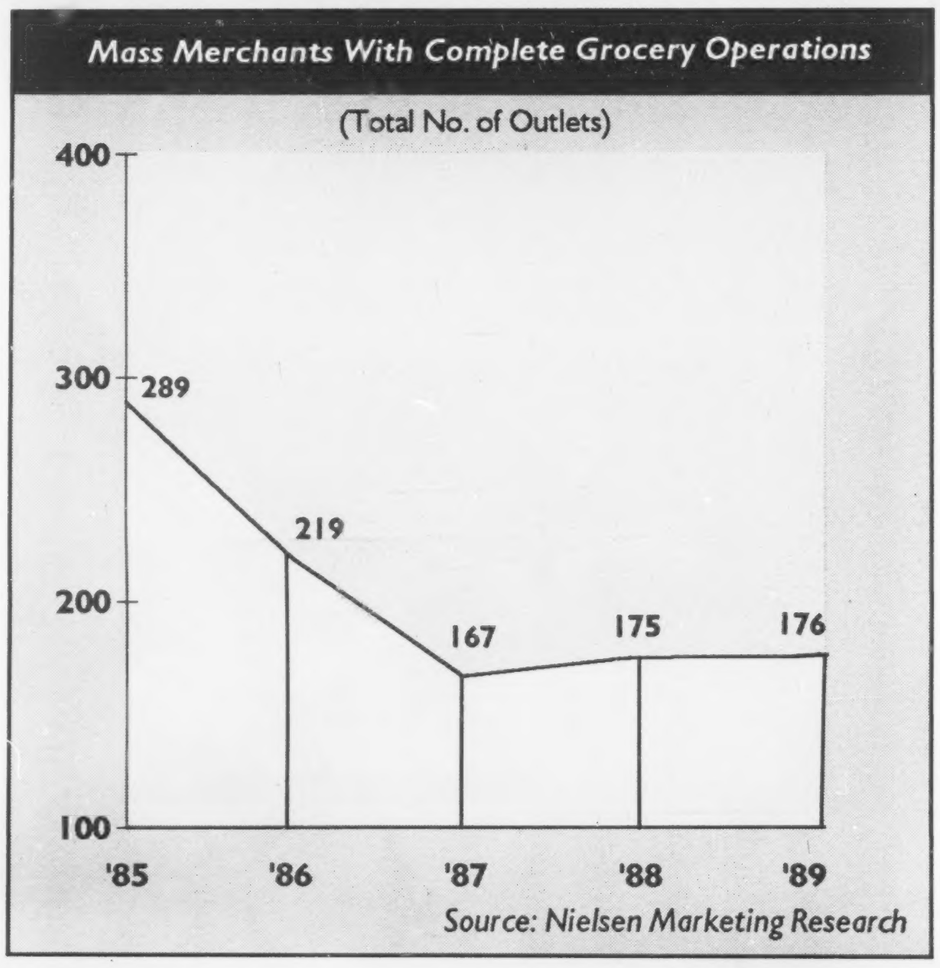
A high percentage of Eastern stores distributed in-store fliers and used in-store audio advertising. Direct mail was most prevalent in the South and Pacific areas.

Local newspaper advertising, the most popular form of advertising overall, was favored most by the Central region stores.

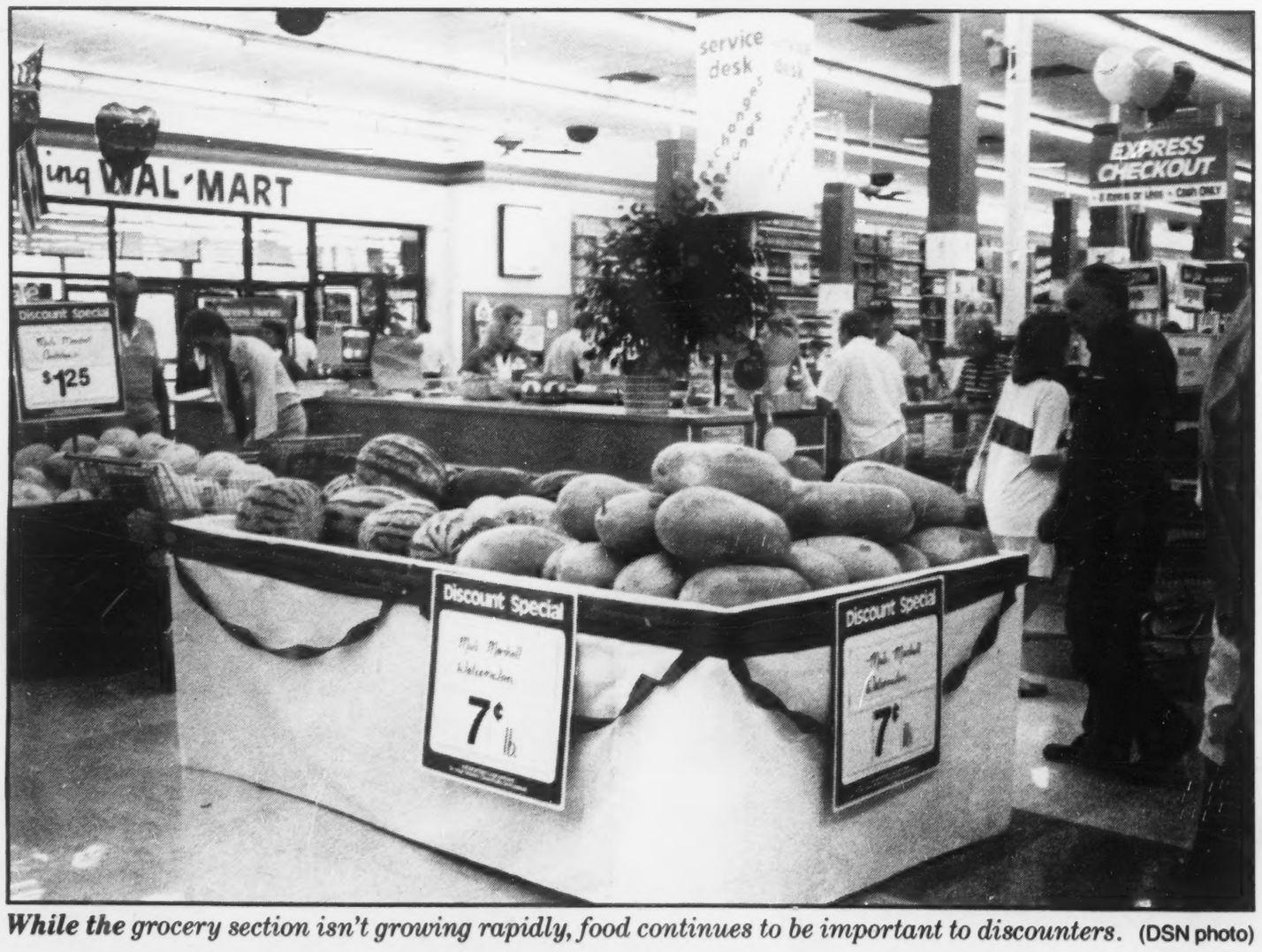
Mass Merchandisers With End-Aisle Merchandising Displays
(Percentage of Stores Offering)

	Total U.S.	East	Central	South	Pacific
All Product Displays	95%	100%	95%	92%	100%
Dry Grocery Displays	67	48	72	75	63
Refrigerated Food Displays	2	*	5	*	4
H&BA Displays	94	100	93	91	100
General Merchandise Displays	93	97	93	91	100
Frozen Food Displays	3	*	7	*	4
Non-Food Displays	90	17	86	92	72
Other Displays/Combinations	64	32	56	66	40

* Less than 1%. Source: Nielsen Marketing Research



While overall growth and growth in pharmacy and grocery areas all registered at 2%, the increases at each level mean very different things in terms of overall trends. The 2% growth in pharmacy departments showed continued growth. But in the grocery area, it meant a slowdown after consistent increases.



***While the** grocery section isn't growing rapidly, food continues to be important to discounters.* (DSN photo)

The Nielsen study attributed the change in status of the grocery area to hypermarkets and warehouse clubs, which are now luring more food shoppers. In addition to the sheer numbers, the way mass merchants handle the grocery area has also changed. Fewer discounters are devoting a specific area to groceries.

Sam's, Pace Square Off For Midwest Dominance

(Continued from page 5)
1990 are combined with Wal-Marts. (In other locations, the Sam's may be separated from Wal-Mart by a grove of trees as in Gainsville, Fla., or a mall parking lot as in York, Pa., or be within a mile's drive as in Duluth, Ga.; El Paso, Texas; or Panama City, Fla.)

Apart from the Wal-Mart and A&P moves, the region is also being eyed by the Price Club, which has already opened two stores on the fringe of the market in Denver, with a third due next year. But Price Club's expansion into the Midwest is likely to be much slower and more measured than Sam's explosive growth to 147 clubs at the end of 1991.

The 56-unit Price Club's current expansion focuses on strengthening its California base—which is likely to be invaded by Sam's in 1991—and augmenting its presence in the Northeast, the other hot regional market being fought over by the industry's five major players—Price Club, Sam's, Pace, Costco and BJ's Wholesale Club.

Costco had opened two clubs in Minneapolis and one in Milwaukee but closed them after 18 months in May 1988, when the units failed to meet sales and earnings goals. While the company hasn't written off the Midwest, it doesn't have any current plans to return to the region.

BJ's Midwest presence is limited to four units in Chicago—the most recent opened in September—and one in Toledo, Ohio. Chicago is BJ's weakest market, a reflection of the growing wholesale club competition there, while Sam's and Pace also have stores in Toledo.

The industry's explosive expansion in the Midwest reflects a key change in the attitude of small businesses to membership wholesale clubs. In the past, small businessmen had purchased goods from their wholesalers and they remained loyal to those suppliers when the clubs first entered the Midwest.

But over time, the clubs' sharper pricing attracted growing numbers of businessmen till finally within the past few years, membership warehouses became the accepted source, one knowledgeable industry executive explained.

The growing acceptance of clubs is behind Wal-Mart's pending acquisition of the Wholesale Club and its subsequent melding into Sam's. Trade observers said that the resulting network of at least 62 Sam's could cause other membership warehouses to reconsider any plans they may have about either entering or expanding their presence in the region. It could even force other wholesale clubs to exit the region as Sam's backfills markets.

Sam's stores have been encircling the Wholesale Club in many markets and this was a key factor behind the two companies making the deal. The greater Chicago market is a prime illustration of Sam's encirclement of key markets staked out by the Wholesale Club and the base of stores that the combined operation is establishing as a potential barrier to other membership warehouses.

The market has also become the precursor of Wal-Mart's drive to dominate the business in an area by twinning its discount store and membership warehouse operations.

The Wholesale Club entered the Windy City and Illinois as a brand new market last month, opening in unusual sites to attract attention for its 120,000-square-foot stores. But Sam's move into the market was just part of its mushrooming expansion in the state, where it already had units in the Southern and Central Illinois.

One Wholesale Club opened in downtown Chicago in a building constructed on top of the 600,000-square-foot South Loop Marketplace, itself a converted Soo Line railroad terminal. Other tenants in the building are retail, wholesale, office and manufacturing businesses.

The other occupied part of the 650,000-square-foot Hawthorne Works in Cicero, Ill., which is a converted factory building. The remaining space is being leased to other businesses.

The two stores, and a third set to open next year as a freestanding club in Evanston, Ill., were part of The Wholesale Club's drive to cluster its divisions in major Midwestern markets.

The membership warehouse earlier in the year opened its fourth store in Indianapolis, its home base, while it has clusters in Cleveland and Minneapolis, three each, and St. Paul, Minn., Columbus, Ohio, and Milwaukee, two each. The club opened in Niles, Ohio, was the second unit in the greater Youngstown area.

Pace will follow a similar cluster plan when it opens units in the Chicago suburbs of Addison, Lansing and Tinley Park next year. But the trio, and the three additional clubs due to open in subsequent years, will face at least 10 Sam's (and former Wholesale Clubs).

Pace is also expanding its Detroit cluster to six clubs with a unit in Waterford, Mich., while a store in Oakwood, Ohio, will give it three units in the Cleveland market.

The Warehouse Club is the only other membership warehouse in Detroit, but Pace faces the Wholesale Club in Cleveland and Sam's in Flint, Mich., Omaha, Neb., and Des Moines, Iowa. The Sam's-Wholesale Club merger means stiffer competition for Pace as it tries to grow in the Midwest.

The Wholesale Club entered Chicago—previously home to eight stores run by three membership warehouse chains—because it is the largest market in the Upper Midwest, where the company had all its 25 units.

Sam's, however, entered the market in 1989 with clubs in Joilet and Rockford, Ill., on the fringe of the Chicago market. This year, Sam's planted stores in four suburbs: Naperville, Streamwood and Matteson, Ill., and Merrillville, Ind.

The combination of 10 Sam's (and ex-Wholesale Club) units overwhelms the presence of BJ's and Warehouse Club in Chicago. Except for the Streamwood location, the new Sam's are combo stores with Wal-Mart, which just magnifies the drawing power of the sites.

The Sam's-Wal-Mart combo sites mark a major new development in the industry. In other regions, wholesale clubs have had to compete with other stand alone membership warehouses. In the Midwest—and especially in the Greater Chicago area—the combination of stores presents a new marketing challenge to other membership warehouses.

How BJ's, the Warehouse Club and Pace face this challenge could determine the future direction and makeup of the industry in the Midwest and even nationally.

Six Units Set In Sam's '91 Expansion

BENTONVILLE, Ark. — Sam's Club is already set to open two more stores in the Midwest as its strives to dominate the wholesale club business in the region.

A Sam's will open next month in Franklin, Wis., in combination with a Wal-Mart discount store while a Sam's is due to open later in the year in Burlington, Ohio.

The two Sam's are among six already on the chain's schedule of new stores for 1991. The other four mark the chain entrance into Florida's Gold Coast with clubs in Pompano Beach, Boynton Beach, Miramar and West Palm Beach.

Number of Stores (At End of Year)

	Sam's Club				Wholesale Club			
States	**1987**	**1988**	**1989**	**1990**	**1987**	**1988**	**1989**	**1990**
Illinois	2	4	4	8	0	0	0	2
Indiana	1	1	2	6	4	5	5	6
Iowa	0	0	1	2	0	0	0	0
Michigan	0	0	2	2	0	0	2	2
Minnesota	0	0	0	0	4	5	6	6
Missouri	3	6	7	8	0	0	0	0
Ohio	0	2	4	4	6	7	8	9
Wisconsin	0	1	2	3	1	1	2	4
Total	**6**	**14**	**22**	**33**	**15**	**18**	**23**	**29**

Source. DSN research

CNC Seeks New Buyer for Ailing Child World

Trefoil Capitol Acquisition Falls Through

(Continued from page 7)
expansion and refurbishment. It also was very enthusiastic about the chain's new prototype, whose features include wider aisles, more open spaces and less inventory than most of the units in the chain, because it distinguished Child World from Toys "R" Us, the industry heavyweight.

Apparently there is interest in the beleaguered chain, but no prospective buyers have been identified.

Child World's third quarter results paint a picture of a financially troubled company.

For the period ended Nov. 3, Child World posted a net loss of $14.4 million, or $1.26 per share, up from a net loss of $4.1 million a year ago. Sales for the period totaled $185.6 million, an increase of 18% over the year-earlier quarter. For nine months, the toy chain recorded a net loss of $30.3 million, more than double the 1989 net loss for the same period, on sales of $466.5 million, an increase of 9.6% over the year-earlier period.

Child World attributed the increased net loss to a reduction in the estimated effective tax rate, lower gross margins from more sales and advertising costs, and higher expenses from new stores.

According to a spokesman for Trefoil, the California-based investment company decided to cancel its purchase of the chain after a prolonged examination of Child World's finances.

Trefoil was going to acquire Child World in a two-step process that included assuming CNC Holdings 82% equity in the chain in a non-cash transaction plus pay $14 a share for the 18% held in public hands.

Even during the height of Child World's stock price this year, its paper never traded above $12 a share, causing retail analysts to question the viability of the sale. Upon word of Trefoil's withdrawal from the deal, at about the time it was to be completed (Nov. 23), the toy chain's stock price plummeted. It now trades at about $3 per share.

In an effort to save the company from further decline, Child World announced a plan on Dec. 4 that was intended to conserve cash during the holiday gift-giving season.

Seek 'Normal Trade Terms'

Child World said that it would continue paying interest on its loans, but not the principal, on merchandise orders placed between Dec. 5 and Jan. 15, and would seek "normal trade terms" after that date.

The toy chain also announced that it suspended, through Jan. 15, principal payments on its working capital line and was negotiating for an extension of its working capital line until 1992.

Child World said that the plan would put vendors and lenders on an even footing and provide the chain with much-needed cash for the Christmas season, the period when it records half its annual sales and all of its yearly profit.

Published reports quoted Jeffrey Cole, chairman of CNC Holdings, saying that the announced measures should help the chain avoid a Chapter 11 bankruptcy filing.

The moves, however, will mean the chain will have to take "a substantial loss" for the fourth quarter and the year.

DISCOUNT STORE NEWS

(ISSN 0012-3587), is published biweekly—every other Monday—23 times a year except issues of Jan. 29, Aug. 6, Nov. 5 and Nov. 26, which are published every third week; monthly in December—by Lebhar-Friedman Inc., 425 Park Ave., New York, N.Y. 10022. Subscriptions are available at no charge to qualified retailers and wholesalers. Paid subscriptions are available to manufacturers and their reps, schools, libraries, govt. agencies and all others—one year, $79; Canada: one year, $85; Foreign subscriptions-Airmail only: $175 (U.S.$ only). Single copy rate $4, except annual census issues $35 ea.

Second-class circulation postage paid at New York, N.Y., and additional mailing offices.

Copyright© 1990 by Lebhar-Friedman Inc. All rights reserved. Postmaster: please send address changes to Subscription Department, *Discount Store News*, Grand Central Station, P.O. Box 3120, New York, N.Y. 10164-0659. For change of address six weeks notice is requested. Give old and new address and zip code. If possible, enclose address portion from cover of previous issue.
Vol. 29, No. 23 December 17, 1990

Economic Picture Bleak for Nation's Retailers

(Continued from page 8)
sumers seeking price, value and service."

In its Soft Goods Outlook for 1991, KSA, retail consultants, also anticipated a decline in same store sales for retailers, and downturns for apparel and textiles manufacturers.

Amidst the gloom there are bright spots for discounters and for the soft goods market.

KSA reported that discount stores have increased their percentage as a channel of distribution for apparel. For overall apparel purchases, retailers account for 18.8% of the market. In children's wear, discounters captured 32.5% of apparel dollar expenditures.

KSA also reported that what it calls minor channels of distribution—off-pricers, factory outlets, mail order and others—account for 22.2% of apparel purchases. Added together, these categories are 41% of the market.

KSA went on to report that consumer buying is bound to gravitate even more to those segments, and that any "real gains in sales will come at the expense of other retailers."

The concept of "first in—first out," may also bring good news for soft goods retailers. According to KSA, that is the pattern soft goods tend to follow in a recession. Soft goods were the first to feel the recession's pinch. Conversely, soft goods should be the first to recover. As consumers' confidence rises, it will be easier to buy smaller ticket items.

Retailers across the board also point to other concerns. Ranking high were maintaining margins, overstoring and higher prices.

The Deloitte & Touche study noted that just over 70% of all respondents said things would get worse in the coming year. An optimistic few, 5.4%, expect things will improve.

Deloitte & Touche also broke down the figures by regions. Retailers in the Northeast are the most pessimistic, with 90% agreeing there is an economic recession.

All regions expect things to get worse in 1991—74% in the Northeast, 72% in the Western region, 69% in the Midwest and 68% in the South.

Local economic conditions, declining consumer confidence and retail competition are the leading factors likely to impact business during the coming year, the study found.

Northeast retailers are more pessimistic than other regions, with 22% projecting sales to be flat and 43% expecting a decline. In comparison, 23% to 35% of retailers in the South, Midwest and Western regions expect declining sales.

The biggest issues facing Northeast retailers in the new year are their local economies and declining consumer confidence. A combined 97% of these respondents said their local areas' economy would have a moderate to major impact on their businesses. Nearly 88% pointed to lower consumer confidence as an increasing problem.

Factors affecting the South and Midwest include local economies, interest rates, competition and labor costs. For the West, competitive elements and labor costs are tied as the most pressing problems, followed by the local economies.

To combat some of the problems, 21.5% of retailers are trimming inventories. Following closely were 17.4% who said they will increase promotions; and 12.8% said they plan to offer a more exclusive merchandise assortment.

In comparing merchandising game plans to last year, most Northeastern and Western retailers said they are buying closer to the selling season. According to the survey, this is also the case of most Southern merchants, although an equal number of Southern retailers reported no change in merchandise plans.

The highest rated strategy response in the Midwest was changing assortments of goods.

Although labor costs were fifth on the list of problems faced by retailers, close to one-quarter of all respondents said they plan to provide incentive/bonus programs in order to attract and maintain qualified sales personnel. Regionally, the Northeast and West had the highest number of respondents who provided incentives.

In the South, the highest number of respondents said there was no change in operating procedure, but provisions of incentive/bonus plans and wage increases got significantly strong responses.

The Midwest was undecided, with equal numbers saying there was no change and others that implemented some incentive programs.

The Deloitte & Touche survey represented 1,262 retailers in all retail categories with annual sales volume ranging from $1 million to more than $200 million, with store locations up to 500 or more.

The study included 221 firms, retailers and manufacturers, in all segments of the soft goods market.

Wal-Mart to Open 10 Units

(Continued from page 6)
Seabrook, N.H., and another in the Harrisburg market.

Wal-Mart is looking for a site for a distribution center somewhere in New England to support its stores in that portion of the Northeast region. A DC generally services 150 stores. Another DC would be used for the Middle Atlantic states' part of the region.

If Wal-Mart follows previous expansion plans, this handful of stores will explode to a few hundred units in the Northeast by mid-1990. The Northeast was the last region tapped by Wal-Mart, which entered the West Coast this year and plans to have over 100 stores in California within a few years.

Wal-Mart's punch into the Northeast comes on the heels of financial difficulties at a number of discounters there.

S.E. Nichols, in Chapter 11, has switched to a deep discount drug store format from a full-line discounter, while Jamesway is skipping its current dividend payment as its bottom line turns red. Ames also is in Chapter 11, while Stuarts said it could take the same step. Bradlees is under pressure to raise its earnings to help its parent Stop and Shop offset a costly leveraged buyout and the discounter could be sold to raise funds to reduce the LBO debt.

Wal-Mart's first probe into the Northeast occurred this year as it unveiled a store in York, Pa., with a unit in State College, Pa., due to be opened by the end of the current fiscal year in January.

A related move on the fringe of the region also took place this year as Wal-Mart opened stores in the Mechanicsville and Colonial Heights suburbs of Richmond, Va. Units are due to open in 1991 in that city's Short Pump and Chesterfield suburbs and further north in Virginia in the Manassas suburb of Washington, D.C.

Wal-Mart paved the way for the entry of its discount stores into the Northeast by first opening Sam's Club membership warehouses in the region. A Sam's was planted in Delran Township, N.J., in 1989 and was followed up this year with units in Atlantic City, N.J., and Temple and York, Pa., the latter twinned with the Wal-Mart there as part of the retailer's plan to combine Sam's and Wal-Mart at the same site to draw the most traffic.

Sam's are due to open in 1991 in Harrisburg, Pa., and Utica, Greece and Henrietta, N.Y. The Harrisburg, Greece and Henrietta Sam's will be twinned with the Wal-Marts in those markets.

Sam's are also on the drawing board for other Northeast markets: Albany, Binghamton, Syracuse and Poughkeepsie, N.Y.; Allentown, Harrisburg, Lancaster, Johnstown, Philadelphia and Wilkes-Barre, Pa.; Wilmington, Del.; Portland, Maine; and Portsmouth, N.H.

Wal-Mart's gearing up for its Northeast thrust came as it reported a 22% jump in total sales in November to $3.2 billion and a 25% boost for the 10-month period to $25.5 billion. Same-store volume was up 7% for November; 10% for the 10 months.

Goldberger Out, Hills Fate Unclear

(Continued from page 5)
Goldberger's resignation from his one-time family business surprised some observers.

Securities analysts Jack Siebald, vp at Soloman Brothers, and Jeff Edelman, vp and retail analyst with Barkelys deZoete Wedd, said they were quite surprised by Goldberger's sudden resignation.

Goldberger had been the chain's president and ceo since 1981. He assumed the role of board chairman when his father died in 1987. Hank Goldberger founded the chain in 1957 and is considered one of the pioneers of the discount store industry. In 1980, he was inducted into *DSN's* Discounting Hall of Fame. The younger Goldberger joined the company in 1970.

While heading the chain, Goldberger is credited with Hills' 1985 LBO from its former owner, the Shoe Company of America (SCOA), returning the firm to a publicly held company in 1987, and with the 1989 acquisition of 33 former Gold Circle stores.

Goldberger also had been a key player in several other changes. Among them:

- Acceptance of credit cards last year;
- Rollout of UPC scanning this year;
- Scheduled opening of distribution centers beginning in '91;
- The introduction of a store refurbishment program beginning with the debut of a new prototype next fall.

Exactly how and where Brouillard and Lee will lead Hills remains unclear. Both men declined to be interviewed until early next year, a spokesman said.

The board's replacement of Goldberger with Brouillard, a financial expert, signals a new business approach for Hills, one that obviously will emphasize financial performance. Lee has been on the discounter's board of directors since 1985. He is president of the Thomas H. Lee Company, a firm specializing in investment activities. Lee was president of SCOA, which owned Hills for 20 years prior to the 1985 LBO, which along with Drexel Burnham Lambert, Lee's company helped to finance. The LBO was valued at $640 million.

Hills' most recent financial statement paints a fairly bleak picture.

For the third quarter ended Nov. 3, Hills posted a net loss of $3.99 million on sales of $557.7 million. Sales for the quarter were up 5.9% from the corresponding period a year ago. Same store sales rose 1.7% for the quarter.

For nine months, Hills reported a net loss of $36.1 million, up from a net loss of $24.4 million a year earlier. Sales for the three quarters were $1.468 billion, up from $1.355 billion for the 1989 period.

Operating income for the chain was positive for both the third quarter and the nine-month recording period, but still below last year's result.

Hills reported an operating profit of $24 million in the third quarter, down from $31.5 million a year earlier. For the three quarters, Hills recorded an operating profit of $19.1 million, down from $33.8 million for year before.

On a positive note, November sales, ended Dec. 1, rose 15.7% and same store sales increased 13.3%

The chain recently announced that it finalized a revised agreement with its bank group and that Norman Matthews, formerly president of Federated Department Stores and chairman of the now-defunct Gold Circle discount chain, is a new board member.

Brouillard has commented in published remarks that "margins were under pressure from the cost of expanded promotion and the recent sluggish retail environment."

Hills is a very leveraged company, due mostly to the 1985 LBO and the 1989 acquisition of the 33 Gold Circle stores. The worsening economy in its prime market areas, the Northeast and Midwest, are further pressuring the chain's performance. Hills also is confronted with the costs associated with refurbishing its stores, and absorbing the costs of offering credit.

Analysts are split on Hills' ability to weather the storm.

Prior to the management reshuffle, analysts David Poneman and Dana Eisman of Sanford C. Bernstein & Co., a New York security analysis firm, issued a report that said Hills could be saved. They suggested cutting expenses related to "growth-related central functions, discretionary development programs and overall store labor."

Sears to Evaluate Homelife Format

(Continued from page 7)
and/or fire an undisclosed number of non-selling employees—mainly part-time workers—in its full-line stores starting next year. Earlier this year it fired 213 employees in its catalog division to cut costs as part of the automation of that operation.)

Bitowt explained that Homelife was different from other Sears power formats in its distribution requirements and the type of advertising needed to attract consumers. Homelife's distribution is geared to delivering goods directly to customers, who can shop for furniture as easily in a freestanding store as in a section within a Sears. However, furniture in a Sears can feed off the store's traffic while a freestanding Homelife has to generate its own business.